

Message Text

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44

ACTION NEA-12

INFO OCT-01 ISO-00 PM-07 SSO-00 NSCE-00 INRE-00 NSC-10

SPC-03 SAM-01 SS-20 RSC-01 CIAE-00 INR-10 NSAE-00

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TO SECSTATE WASHDC IMMEDIATE 6268

INFO AMCONSUL DHAHRAN

USMTM DHAHRAN

SECDEF

DA WASHDC

S E C R E T JIDDA 0962

E.O. 11652: GDS

TAGS: MASS, SA

SUBJECT: IMPROVED HAWK NEGOTIATIONS

REF: USMTM DHAHRAN DT 220610Z FEB 74 (NOTAL)

SUMMARY: RAYTHEON-SAG IMPROVED HAWK NEGOTIATIONS ARE HUNG UP ON SAG INSISTENCE ON 100 PERCENT BANK GUARANTEE OF DOWN PAYMENT (ABOUT \$70 MILLION) AND RAYTHEON ASSERTION THAT SAG COLLECTION OF SUCH A GUARANTEE WOULD CAUSE FINANCIAL RUIN FOR COMPANY. RAYTHEON BOARD WILL MEET THIS WEEK TO DETERMINE COMPANY'S POSITION. NEGATIVE RESPONSE WILL, SAYS SULTAN, MEAN END OF RAYTHEON IN SAUDI ARABIA. SULTAN VIEWS GUARANTEE AS WAY OF INSURING THAT POLITICAL CONSIDERATIONS WILL NOT INTERFERE WITH IMPLEMENTATION OF PROGRAM. IF DEPARTMENT CAN ASSURE RAYTHEON THAT USG WILL NOT PLACE FUTURE OBSTACLES IN WAY OF EXPORTING IMPROVED HAWK THIS MAY STRENGTHEN COMPANY'S RESOLVE TO GO AHEAD WITH GUARANTEE. OTHERWISE RESULTS WILL PROBABLY BE SAG REQUEST FOR GOVERNMENT-TO-GOVERNMENT IMPLEMENTATION OF IMPROVED HAWK AND EXCLUSION OF RAYTHEON FROM ANY OTHER BUSINESS IN SAUDI

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ARABIA.

END SUMMARY.

1. REFTEL, WHICH DID NOT GO TO STATE, REPORTED RESULTS OF SAG-RAYTHEON IMPROVED HAWK NEGOTIATIONS, NOW SUSPENDED WHILE RAYTHEON VICE PRESIDENT PHILIP PHALON RETURNS TO U.S. TO CONSULT WITH RAYTHEON BOARD. NEGOTIATIONS HAD SETTLED ON FOLLOWING FIVE POINTS, FIRST FOUR OF WHICH WERE ACCEPTED BY RAYTHEON.

(A) FIVE PERCENT REDUCTION IN THE OVERALL CONTRACT PRICE. (FIGURE PREVIOUSLY QUOTED WAS \$279 MILLION).

(B) TEN PERCENT OF THE CONTRACT PRICE WILL BE COVERED WITH A 100 PERCENT BANK GUARANTEE FOR 67 MONTHS SUBJECT TO SAG'S UNILATERAL WITHDRAWAL.

(C) TWO PERCENT PENALTY FOR LATE DELIVERY.

(D) 50 PERCENT PAYMENT IN THE FIRST YEAR OF THE CONTRACT.

(E) 100 PERCENT GUARANTEE ON THE DOWN PAYMENT (ABOUT \$70 MILLION) BUT NOT, REPEAT NOT, ON THE CONDITIONS FOR WITHDRAWAL. THIS GUARANTEE WOULD DIMINISH TO ZERO WITHIN A SPECIFIED TIME.

2. RAYTHEON CLAIMS FIFTH POINT IS UNACCEPTABLE TO COMPANY SINCE IF SULTAN ELECTED TO CLAIM BANK GUARANTEE COMPANY WOULD FACE FINANCIAL RUIN. SULTAN STATES THAT SAG LAW REQUIRES 100 PERCENT BANK GUARANTEE OF DOWN PAYMENT WITH FOREIGN CONTRACTOR AND THAT WAIVER OF PROVISION WOULD SET UNACCEPTABLE PRECEDENT. (LOCAL BANK CONFIRMS THAT THIS GUARANTEE OF DOWN PAYMENTS IS STANDARD PRACTICE, BUT MAY POSSIBLY HAVE BEEN WAIVED ON OCCASION.) SULTAN GAVE PERSONAL ASSURANCE TO COMPANY REPRESENTATIVES THAT SAG WOULD NEVER CLAIM GUARANTEE. RAYTHEON NEGOTIATORS STATED THEY DID NOT HAVE AUTHORITY TO COMMIT COMPANY TO GUARANTEE OF THIS NATURE. SULTAN THEN DIRECTED PHALON TO RETURN TO U.S. TO GET POSITION OF BOARD ON ISSUE, BUT WARNED THAT IF
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RAYTHEON DOES NOT ACCEPT BANK GUARANTEE, BACKED BY SULTAN'S ORAL ASSURANCE THAT IT WILL NOT BE CLAIMED, THEN RAYTHEON IS FINISHED IN SAUDI ARABIA.

3. EMBASSY FEELS THAT SAG INSISTENCE ON 100 PERCENT BANK GUARANTEE IS AT LEAST PARTLY A RESULT OF RECENT USG RELUCTANCE TO CARRY ON BUSINESS-AS-USUAL IN MILITARY FIELD. DELAYS AND LACK OF RESPONSE TO REQUESTS HAVE

MADE SULTAN AWARE OF POLITICAL VULNERABILITY OF
MILITARY PROGRAMS AND HAVE PROMPTED HIM TO SEARCH
FOR WAYS OF INSURING IMPLEMENTATION OF PROGRAMS RELATED
TO NATIONAL DEFENSE. THUS, INSISTENCE ON BANK
GUARANTEE MAY NOT BE RESULT OF ANY LACK OF CONFIDENCE
IN RAYTHEON'S ABILITY TO IMPLEMENT PROGRAM, BUT RATHER
A METHOD WHEREBY SULTAN SEEKS TO INSURE THAT SHOULD USG
IN FUTURE IMPOSE ANY RESTRICTIONS ON EXPORT OF IMPROVED
HAWK, COMPANY'S FINANCIAL PLIGHT (IF BANK GUARANTEE
SHOULD BE TAKEN) WOULD CAUSE IT TO PRESSURE USG TO REMOVE
ANY OBSTACLE IT MIGHT BE IMPOSING.

4. IF RAYTHEON BOARD DECIDES FIRM IS UNABLE TO MEET
SAG REQUIREMENT OF BANK GUARANTEE THIS WILL ALMOST CER-
TAINLY RESULT IN SAG REQUEST FOR SAG-USG GOVERNMENT-TO-
GOVERNMENT AGREEMENT. THIS EMBASSY WOULD REGARD AS UNFORTUNATE
STEP BACKWARD IN AREA IN WHICH SAG HAD PREVIOUSLY SUCCESSFULLY
HANDLED CONTRACT SUPERVISION. DELAY OF SEVERAL MONTHS WHILE
MOU IS NEGOTIATED AND SIGNED WOULD MERELY INSURE HIGHER
PRICES TO SAG FROM REPRICED RAYTHEON PROPOSAL. SULTAN'S
DISSATISFACTION WITH RAYTHEON WOULD PROBABLY BE SUFFICIENT TO
INSURE THAT COMPANY WOULD NOT BE CONSIDERED FOR ANY FUTURE
PROGRAMS IN SAUDI ARABIA--CERTAINLY FOR NONE IN THE MILITARY
FIELD. THUS, WE HOPE COMPANY'S PERCEPTION OF ITS LONG-RANGE
BEST INTERESTS WILL ENABLE IT TO SWALLOW HARD AND DECIDE TO
ACCEPT SULTAN'S TERMS. IF COMPANY FEELS GUARANTEE
OF PRESENT DOWN PAYMENT PLACES COMPANY IN TOO MUCH
JEOPARDY THEY CAN, OF COURSE, REDUCE SIZE OF DOWN PAYMEN
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